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SUBJECT: PROPOSED VAT ON IMPORTS MAY SHRINK MARKET FOR  
U.S. APPLES IN SOUTH INDIA

REF: NEW DELHI 2701

¶1. (U) SUMMARY: Fruit dealers in south India expect U.S. apple imports to shrink by 30% to 50% if a proposed Value Added Tax (VAT) on imports is levied. Commercial Tax Commissioners in southern states oppose the imposition of VAT on imports because they fear a loss of tax revenue and potential administrative problems in collection of the tax. END SUMMARY

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VAT ON IMPORTS TO SPOIL US APPLES  
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¶2. (U) Produce distributors and retailers in south India expect the market to begin to reject U.S. apples should the Government of India go ahead with its proposal to impose VAT on imports. "We can expect a 50% drop in the off take of U.S. apples, should the tax be imposed," said Ameerul Hussian, Coordinator, National Fruits Agency. His company is a large distributor to traditional produce vendors and imports over ten, twenty-foot-equivalent container loads of apples per quarter. Keith D. Cunha, General Manager for Imports at Nilgris Dairy Farms, a large retail chain based in South India, told post that he expected a 30% drop. His chain now sells 250 cartons of U.S. apples per month which he expected would drop to 175 cartons.

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PROPOSED TAX COULD TRIGGER SWITCH TO ALTERNATE SOURCES  
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¶3. (U) The imposition of the tax is expected to trigger a switch from U.S. apples to apples from Chile and Australia. Sources in the wholesale trade told post that these apples have a longer shelf life and are cheaper as well. However, apples from the two countries are new entrants to the south Indian market and have not previously captured significant market share. South Indian consumers have remained loyal to branded U.S. apples, but a price increase caused by VAT implementation could trigger a switch to the cheaper Chilean and Australian varieties.

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SOUTHERN COMMERCIAL TAX COMMISSIONERS OPPOSE IMPOSITION  
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¶4. (SBU) Contrary to press reports, commercial tax commissioners in the four southern states told Post they

oppose the imposition of VAT on imports (Reftel). They remain skeptical of the Government of India's estimates of potential revenue yield and consequently of the VAT's ability to make up for the withdrawal of the Central Sales Tax which it will replace. The Commissioners also doubt the ability of a state administrative system to collect the proposed tax. "We have proposed that the Customs authorities collect the tax when they collect import duties," Mr. Venkataramani Bhaskar, Commissioner of Commercial Taxes, Government of Andhra Pradesh told Post.

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SOUTHERN STATE TAX COMMISSIONERS POSSIBLE U.S. ALLIES  
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¶5. (U) COMMENT: Imposition of VAT on imports necessitates an amendment to the Indian constitution and any constitutional amendment must have the concurrence of the states. Commercial tax commissioners in the states play a major role in determining the positions their states will take on this issue. Advocacy among commissioners across states could well stem the imposition of a tax which has the potential of placing U.S. goods at a disadvantage. END COMMENT

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